5. Corporate Governance and Business Ethics

Corporate governance is a process that aims to allocate corporate resources in a manner that maximizes value for all stakeholders - shareholders, investors, employees, customers, suppliers, environment and the community at large and holds those at the helms to account by evaluating their decisions on transparency, inclusivity, equity and responsibility.

The World Bank defines governance as the exercise of political authority and the use of institutional resources to manage society's problems and affairs.

> ***According to UK- Cadbury,*** *London "The system by which companies are directed and controlled corporate governs "Report of the Committee on the Financial Aspects of Corporate Governance."*
> *"Corporate governance means that company managers its business in a manner that is accountable and responsible to the shareholders. In a wider interpretation, corporate governance includes company's accountability to shareholders and other stakeholders such as employees, suppliers, customers and local community."* ***- Catherwood***

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

Corporate Governance is the system by which Companies are directed and controlled. Boards of Directors are Responsible for the Governance of their Companies. The Shareholders' role in governance is to appoint the Directors and the Auditors to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the Board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to Laws, Regulations and the Shareholders in General Meeting.

The Benefits of Corporate Governance

(A) The Benefits to Companies

Compliance with the corporate governance principles can benefit the owners and managers of companies and increase transparency and disclosure by:

- Improving access to capital and financial markets
- Help to survive in an increasingly competitive environment through mergers, acquisitions, partnerships, and risk reduction through asset diversification.
- Provide an exit policy and ensure a smooth inter-generational transfer of wealth and disinvestment of family assets, as well as reducing the chance for conflicts of interest to arise (very important for the investors).
- Also, adopting good corporate governance practices leads to a better system of internal control, thus leading to greater accountability and better profit margins.
- Good corporate governance practices can pave the way for possible future growth, diversification, or a sale, including the ability to attract equity investors - nationally and from abroad - as well as reduce the cost of loans/credit for corporations.
- Many businesses seeking new funds often find themselves obliged to undertake serious corporate governance reforms at a high cost and upon the demand of outsiders, often in a time of crisis. When the foundations are already in place investors and potential partners will have more confidence in investing in or expanding the company's operations.

(B) The Benefits to Shareholders

- Good corporate governance can provide the proper incentives for the board and management to pursue objectives that are in the interest of the company and shareholders, as well as facilitate effective monitoring.
- Better corporate governance can also provide Shareholders with greater security on their investment.
- Better corporate governance also ensures that shareholders are sufficiently informed on decisions concerning fundamental issues like amendments of statutes or articles of incorporation, sale of assets, etc.

(C) The Benefits to the National Economy

- Empirical evidence and research conducted in recent years supports the proposition that it pays to have good corporate governance. It was found out that more than 84% of the global institutional investors are willing to pay a premium for the shares of a well-governed company over one considered poorly governed, but with a comparable financial record.
- The adoption of corporate governance principles - as good corporate governance practice has already shown in other markets - can also play a role in increasing the corporate value of companies.

"If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All enterprises in that country suffer the consequences."

Parties to Corporate Governance

The most influential parties involved in corporate governance include government agencies and authorities, stock exchanges, management (including the board of directors and its chair, the Chief Executive Officer or the equivalent, other executives and line management, shareholders and auditors). Other influential stakeholders may include lenders, suppliers, employees, creditors, customers and the community at large.

(a) The agency *view of the corporation posits that the shareholder forgoes decision rights (control) and entrusts the manager to act in the shareholders' best (joint) interests*. Partly as a result of this separation between the two investors and managers, corporate governance mechanisms include a system of controls intended to help align managers' incentives with those of shareholders. Agency concerns (risk) are necessarily lower for a controlling shareholder.

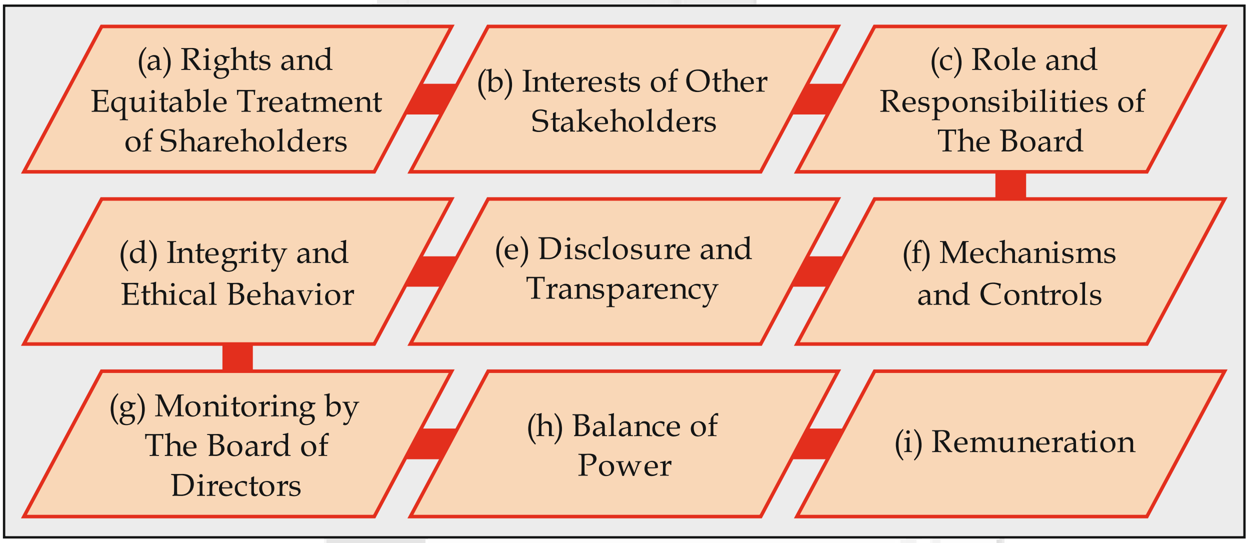
(b) A board of directors *is expected to play a key role in corporate governance. The board has the responsibility of endorsing the organization's strategy, developing directional policy, appointing, supervising and remunerating senior executives, and ensuring accountability of the organization to its investors and authorities.*

All parties to corporate governance have an interest, whether direct or indirect, in the financial performance of the corporation. Directors, workers and management receive salaries, benefits and reputation, while investors expect to receive financial returns. For lenders, it is specified interest payments while returns to equity investors arise from dividend distributions or capital gains on their stock.

(c) Customers *are concerned with the certainty of the provision of goods and services of an appropriate quality; suppliers are concerned with compensation for their goods or services, and possible continued trading relationships*. These parties provide value to the corporation in the form of financial, physical, human and other forms of capital. Many parties may also be concerned with corporate social performance.

A key factor in a party's decision to participate in or engage with a corporation is their confidence that the corporation will deliver the party's expected outcomes. When categories of parties (stakeholders) do not have sufficient confidence that a corporation is being controlled and directed in a manner consistent with their desired outcomes, they are less likely to engage with the corporation. When this becomes an endemic system feature, the loss of confidence and participation in markets may affect many other stakeholders and increases the likelihood of political action.

Principles of Corporate Governance



(a) Rights and Equitable Treatment of Shareholders : Organizations should respect the rights of shareholders and help shareholders to exercise those rights. *They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.*

(b) Interests of Other Stakeholders : *Organizations should recognize that they have legal and other obligations to all legitimate stakeholders.*

(c) Role and Responsibilities of The Board : *The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance*. It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and duties. There are issues about the appropriate mix of executive and non-executive directors.

(d) Integrity and Ethical Behavior : Ethical and responsible decision making is not only important for public relations, but also a necessary element in risk management and avoiding lawsuits. *Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making*. It is important to understand, though, that reliance by a company on the integrity and ethics of individuals is bound to eventual failure. Because of this, many organizations establish Compliance and Ethics Programs to minimize the risk that the firm steps outside of ethical and legal boundaries.

(e) Disclosure and Transparency : *Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability.* They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

(f) Mechanisms and Controls : *Corporate governance mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard and adverse selection*. For example, to monitor managers' behavior, an independent third party (the external auditor) attests the accuracy of information provided by management to investors. An ideal control system should regulate both motivation and ability. Internal corporate governance controls Internal corporate governance controls monitor activities and then take corrective action to accomplish organizational goals.

(g) Monitoring by The Board of Directors : *The board of directors, with its legal authority to hire, and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided*. Whilst non-executive directors are thought to be more independent, they may not always result in more effective corporate governance and may not increase performance. Different board structures are optimal for different firms. Moreover, the ability of the board to monitor the firm's executives is a function of its access to information. Executive directors possess superior knowledge of the decision-making process and therefore evaluate top management on the basis of the quality of its decisions that lead to financial performance outcomes, ex ante. It could be argued, therefore, that executive directors look beyond the financial criteria.

Internal Control Procedures and Internal Auditors : Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel within an organization who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting.

(h) Balance of Power : *The simplest balance of power is very common; require that the President be a different person from the Treasurer*. This application of separation of power is further developed in companies where separate divisions check and balance each other's actions. One group may propose company-wide administrative changes, another group review and can veto the changes, and a third group check that the interests of people (customers, shareholders, employees) outside the three groups are being met.

(i) Remuneration : *Performance-based remuneration is designed to relate some proportion of salary to individual performance*. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits. Such incentive schemes, however, are reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behavior and can elicit myopic behavior.

External Corporate Governance Controls

External corporate governance controls encompass the controls external stakeholders exercise over the organization. Examples include :

- Competition
- debt covenants
- demand for and assessment of performance

- information (especially financial statements)
- government regulations
- managerial labour market
- media pressure
- takeovers

SEBI Guideline for Corporate Governance

The **Indian Companies Act of 2013** introduced some progressive and transparent processes which benefit stakeholders, directors as well as the management of companies. Investment advisory services SEBI Code of Corporate Governance:

To promote good corporate governance, SEBI (Securities and Exchange Board of India) constituted a committee on corporate governance under the chairmanship of ***Kumar Mangalam Birla***. On the basis of the recommendations of this committee, SEBI issued certain guidelines on corporate governance; which are required to be incorporated in the listing agreement between the company and the stock exchange.

An overview of SEBI guidelines on corporate governance is given below, under appropriate heads :

(a) Board of Directors :

(i) The Board of Directors of the company shall have an optimum combination of executive and non-executive directors.

(ii) The number of independent directors would depend on whether the chairman is executive or non-executive.

In case of non-executive chairman, *at least, one third of the Board should comprise of independent directors; and in case of executive chairman, at least, half of the Board should comprise of independent directors.*

The expression 'independent directors' means directors, who apart from receiving director's remuneration, do not have any other material pecuniary relationship with the company.

(b) Audit Committee :

(1) The company shall form an independent audit committee whose constitution would be as follows :

 (i) *It shall have minimum three members, all being non-executive directors, with the majority of them being independent, and at least one director having financial and accounting knowledge.*

 (ii) The Chairman of the committee will be an independent director.

 (iii) The Chairman shall be present at the Annual General Meeting to answer shareholders' queries.

(2) The audit committee shall have powers which should include the following:

 - To investigate any activity within its terms of reference.
 - To seek information from any employee.
 - To obtain outside legal or other professional advice.
 - To secure attendance of outsiders with relevant expertise, if considered necessary.

(3) The role of audit committee should include the following:

- Overseeing of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending the appointment and removal of external auditor.
- Reviewing the adequacy of internal audit function
- Discussing with external auditors, before the audit commences, the nature and scope of audit; as well as to have post-audit discussion to ascertain any area of concern.
- Reviewing the company's financial and risk management policies.

(c) Remuneration of Directors : The following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:

(i) All elements of remuneration package of all the directors i.e. salary, benefits, bonus, stock options, pension etc.

(ii) Details of fixed component and performance linked incentives, along with performance criteria.

(d) Board Procedure Some Points in this Regards are :

(i) *Board meetings shall be held at least, four times a year, with a maximum gap of 4 months between any two meetings.*

(ii) A director shall not be a member of more than 10 committees or act as chairman of more than five committees, across all companies, in which he is a director.

(e) Management : A Management Discussion and Analysis Report should form part of the annual report to the shareholders; containing discussion on the following matters (within the limits set by the company's competitive position).

- Opportunities and threats.
- Segment-wise or product-wise performance.
- Risks and concerns.
- Discussion on financial performance with respect to operational performance.
- Material development in human resource/industrial relations front.

(f) Shareholders :

(i) In case of appointment of a new director or reappointment of a director, shareholders must be provided with the following information:

- A brief resume (summary) of the director.
- Nature of his expertise.
- Number of companies in which he holds the directorship and membership of committees of the Board.

(ii) A Board Committee under the chairmanship of non-executive director shall be formed to specifically look into the redressing of shareholders and investors' complaints like transfer of shares, non-receipt of Balance Sheet or declared dividends etc. This committee shall be designated as 'Shareholders/Investors Grievance Committee'.

(g) Report on Corporate Governance : There shall be a separate section on corporate governance in the Annual Report of the company, with a detailed report on corporate governance.

(h) Compliance : The company shall obtain a certificate from the auditors of the company regarding the compliance of conditions of corporate governance. This certificate shall be annexed with the Directors' Report sent to shareholders and also sent to the stock exchange and proxy firms provide concise information to the shareholders about these newly introduced processes and regulations, which aim to improve the corporate governance in India.

Basel Committee Principles

On Corporate Governance 2006

1. *Board Members should be qualified for their positions, have a clear understanding of their role in Corporate Governance and able to exercise sound judgment about the affairs of the bank.*
2. *The Board of Directors should approve and oversee the Bank's strategic objectives and corporate values that are communicated throughout the Banking Organization.*
3. *The Board of Directors should set and enforce clear lines of Responsibility and Accountability throughout the organization.*
4. *The Board should ensure that there is appropriate Oversight by Senior Management consistent with Board Policy.*
5. *The Board and Senior Management should effectively utilize the work conducted by the Internal Audit function, External Auditors, and Internal Control functions.*
6. *The Board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long-term objectives and strategy, and control environment.*
7. *The Bank should be governed in a Transparent Manner.*
8. *The Board of Directors and Senior Management should understand the Bank's operational structure, including where the bank operates in jurisdictions, or through structures, that impede transparency.*

Legal Frame Work

Apart from the Companies Act 2013 and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirement) Regulations 2015 (LODR), there are numerous other rules, notifications and circulars issued by authorities such as the Ministry of Corporate Affairs (MCA) and the Securities and Exchange Board of India (SEBI) providing clarifications and guidance on corporate governance regulations.

Authorities that are in charge of enforcement include the :

- *State-wide Registrar of Companies and regional directors.*
- *National Company Law Tribunal and National Company Law Appellate Tribunal.*
- *SEBI and Securities Appellate Tribunal.*
- *Serious Fraud Investigation Office.*

The Companies Act 2013 imposes certain obligations on companies in the interest of upholding corporate governance norms, including the following :

Composition of The Board of Directors

The Companies Act 2013 provides for the number of independent, female and minority shareholders directors to be appointed, rotation of directors and the tenure of directors.

Duties of Directors

The Companies Act 2013 provides that directors must act in good faith and carry out such fiduciary duties in the interests of the company.

Constitution of Committees

It is mandatory for certain classes of companies to constitute a nomination and remuneration committee, corporate social responsibility (CSR) committee, audit committee, and stakeholder relationship committee. In addition, such companies are also required to provide for a "vigil mechanism" and whistle blower policy that are safeguards against the victimisation of employees and directors from reporting instances of failure to adhere to corporate governance norms by company officials.

Reporting Requirements

Reports must be prepared by the board of directors on information about the functioning of the company and disclosed to various authorities at periodic intervals.

The LODR (Listing Obligations and Disclosure Requirement) aligns various clauses of the listing agreements, along with provisions of the Companies Act 2013, to stipulate certain disclosures as well as stricter governance requirements for the board of directors:

Disclosures

The LODR (Listing Obligations and Disclosure Requirement) requires the company to make event-based and information disclosures which are "material" according to the board of directors' opinion.

Governance of The Board of Directors

The LODR (Listing Obligations and Disclosure Requirement) stipulates director duties as well as the formation of committees. Certain companies are also required to establish a risk management committee to identify and address the risks faced by the company in a proactive manner.

DID YOU KNOW ?

The compliance and disclosure norms prescribed under the Companies Act 2013 and LODR (Listing Obligations and Disclosure Requirement) are mandatory. Non-compliance will result in fines and imprisonment of the directors and officers in default, as well as the suspension of the trading of securities of defaulting companies.

Corporate Social Responsibility and Reporting

India is one of the first countries to statutorily require companies to undertake corporate social responsibility (CSR) activities. Provisions of section 135 of the Companies Act 2013, read with the Companies (Corporate Social Responsibility Policy) Rules 2014 (CSR Rules), seek to provide that *every company which has a specified net worth or turnover or net profit during any financial year must constitute a CSR committee on the board of directors*. The composition of the board must be included in the board's report. The committee must formulate policies including activities relating to:

- Eradicating extreme hunger and poverty.
- The promotion of education.
- Promoting gender equality and empowering women.
- Reducing child mortality.
- Improving maternal health.

The contents of the CSR policy must be disclosed by the board in its report and on the company's website. *The board must also try to ensure that at least 2% of the net profits of the company made during three immediately preceding financial years are spent on the CSR policy every year*. If the company fails to do this, the board is required to report the reasons for not spending the money.

Another reporting requirement for listed entities is to complete a Business Responsibility Report, as set out in the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business issued by the Ministry of Corporate Affairs (MCA) in 2011. This makes it mandatory for all the top 500 listed companies based on market capitalization to submit, as part of their annual reports, a Business Responsibility Report describing the environmental, social and governance initiatives taken up by them.

A Few New Provision for Directors and Shareholders

Corporate governance was guided by **Clause 49** of the Listing Agreement before introduction of the Companies Act of 2013. As per the new provision, SEBI has also approved certain amendments in the Listing Agreement so as to improve the transparency in transactions of listed companies and giving a bigger say to minority stakeholders in influencing the decisions of management. These amendments have become effective from 1st October 2014.

- One or more women directors are recommended for certain classes of companies.
- Every company in India must have a resident directory.
- The maximum permissible directors cannot exceed 15 in a public limited company. If more directors have to be appointed, it can be done only with approval of the shareholders after passing a Special Resolution.
- The Independent Directors are a newly introduced concept under the Act. A code of conduct is prescribed and so are other functions and duties.
- The Independent directors must attend at least one meeting a year.
- Every company must appoint an individual or firm as an auditor. The responsibility of the Audit committee has increased.
- Filing and disclosures with the Registrar of Companies has increased.
- Top management recognizes the rights of the shareholders and ensures strong co-operation between the company and the stakeholders.
- Every company has to make accurate disclosure of financial situations, performance, material matter, ownership and governance.

Additional Provisions

(a) Related Party Transactions : A Related Party Transaction (RPT) is the transfer of resources or facilities between a company and another specific party. The company devises policies which must be disclosed on the website and in the annual report. All these transactions must be approved by the shareholders by passing a Special Resolution as the Companies Act of 2013. Promoters of the company cannot vote on a resolution for a related party transaction.

(b) A change in Clause 35B : The e-voting facility has to be provided to the shareholder for any resolution is a legal binding for the company.

(c) Corporate Social Responsibility : The company has the responsibility to promote social development in order to return something that is beneficial for the society.

(d) Whistle Blower Policy : This is a mandatory provision by SEBI which is a vigil mechanism to report the wrong or unethical conduct of any director of the company.

Number of Directors or Members

The Companies Act 2013 provides that a minimum of three directors can be appointed to the board in a public company. It also states that there must be a minimum of two directors in the board of a private company and one director in a one-person company board, and that there can be a maximum of 15 directors. A company can appoint more than 15 directors after passing a special resolution of the shareholders.

DID YOU KNOW ?

As mentioned above, a private company should have a minimum of two members and can have a maximum of 200 members. A public company requires a minimum of seven members and con invite the public to subscribe to its securities.

The Companies Act 2013 does not prescribe any age limit for a person to be appointed as a director of a company. However, if a company is appointing a managing director, a manager or a full-time director, section 196(3)(a) applies. This states that no company can appoint or continue the employment of any person as its managing director, full-time director or manager who is below the age of 21 or is 70 or older.

Appointment of Directors

The appointment of directors is stipulated in section 152 of the Companies Act 2013, which states that all directors (except first director, additional director, nominee director, alternate director and a director appointed in a casual vacancy), must be appointed by the company in a general meeting. It is mandatory for a person intending to become a director to obtain an identification number from the central government, without which he or she cannot be appointed. It is also mandatory for the person appointed as a director to give his or her consent for the appointment and this consent must also be filed with the Registrar of Companies.

Further, section 149 of the Companies Act 2013 states that listed companies must appoint at least one-third of the total number of directors as independent directors. An independent director is also eligible for re-appointment based on their performance.

Removal of Directors

A director of a company can be removed by an ordinary resolution, provided that he is not a director appointed by the National Company Law Tribunal (NCLT), and he or she has been given a reasonable opportunity to be heard (section 169, Companies Act 2013). A special notice of the resolution for removing a director must be given.

The articles of association of a company may provide for additional procedures for the removal of a director. The Companies Act 2013 states that such powers conferred by the articles will not be affected by section 169.

Company Meetings

Every company apart from a one-person company must hold a meeting every year which is known as the annual general meeting (AGM) (section 96, Companies Act 2013). The time gap between two AGMs must not exceed 15 months.

At an AGM the following four items constitute ordinary business (section 102(2), Companies Act 2013) :

- *Consideration of financial statements and reports of the board and auditors.*
- *Declaration of a dividend.*
- *The appointment of directors in place of retiring directors.*
- *The appointment and the fixing of remuneration of auditors.*

However, a company can propose to discuss any other item in an AGM, but this will be considered special business.

Notice

To call an AGM, notice of not less than 21 clear days must be given, either in writing or in electronic mode. An AGM can also be called by giving a shorter notice period, if at least 95% of the shareholders eligible to vote at such an AGM, consent to this. The consent must be given in writing or in electronic form.

Quorum

The mandatory quorum for an AGM is provided in section 103 of the Companies Act 2013. The quorum for a public company will be determined on the basis of the number of its members. If the total number of members of a public company is not more than 1000, then the quorum will be five members present in person. If the number of members is between 1000 and 5000, then the quorum will be 15 members present in person, and if the total number of members exceeds 5000 then the quorum will be 30 members present in person.

Business Ethics

The word ethics is derived from the Greek word **"Ethikos"** and Latin word **"Ethicus"** mean custom or character. The concept of ethics deals with human beings. So it is a social science.

Ethics is a branch of philosophy and is considered as normative science because it is concerned with norms of human beings.

According to Peter .F. Drucker, *Ethics deals with right actions of individuals.*
Ethics includes the following :

1. *Well based standards: Ethics refers to well based standards of right and wrong that prescribe what humans ought to do*
2. *Study and development of one's ethical standards: Ethics refers to the study and development of one's ethical standards.*

According to Oxford Dictionary ethics *as "the moral principle that governs a person's behavior or how an activity is conducted". The synonyms of ethics as per Collins Thesaurus are - conscience, moral code, morality, moral philosophy, moral values, principles, rules of conduct and standards.*

"Business Ethics is the study of the business situations 'activities' and decisions where issues of right and wrong are addressed." ***- Andrew Crane***

"The ethics of business is the ethics of the responsibility. The business man must promise that he will not harm knowingly. ***- Raymond C. Baumhart***

Business ethics refers to a 'code of conduct' which businessmen are expected to follow while dealing with others. 'Code of conduct' is a set of principles and expectations that are considered binding on any person who is member of a particular group. The alternative names for code of conduct are 'code of ethics' and 'code of practice'.

Businesses must balance their desire to maximize profits against the needs of stakeholders. The significant issues in business ethics include ethical management of enterprise in relation to its stakeholders in particular and natural environment in general.

Business ethics comprises of the principles and standards that guide behaviour in the conduct of business. Businesses must balance their desire to maximize profits against the needs of the stakeholders.

Maintaining this balance often requires tradeoffs. To address these unique aspects of businesses, articulated as well as implicit rules are developed to guide the businesses to earn profits without harming individuals or society as a whole.

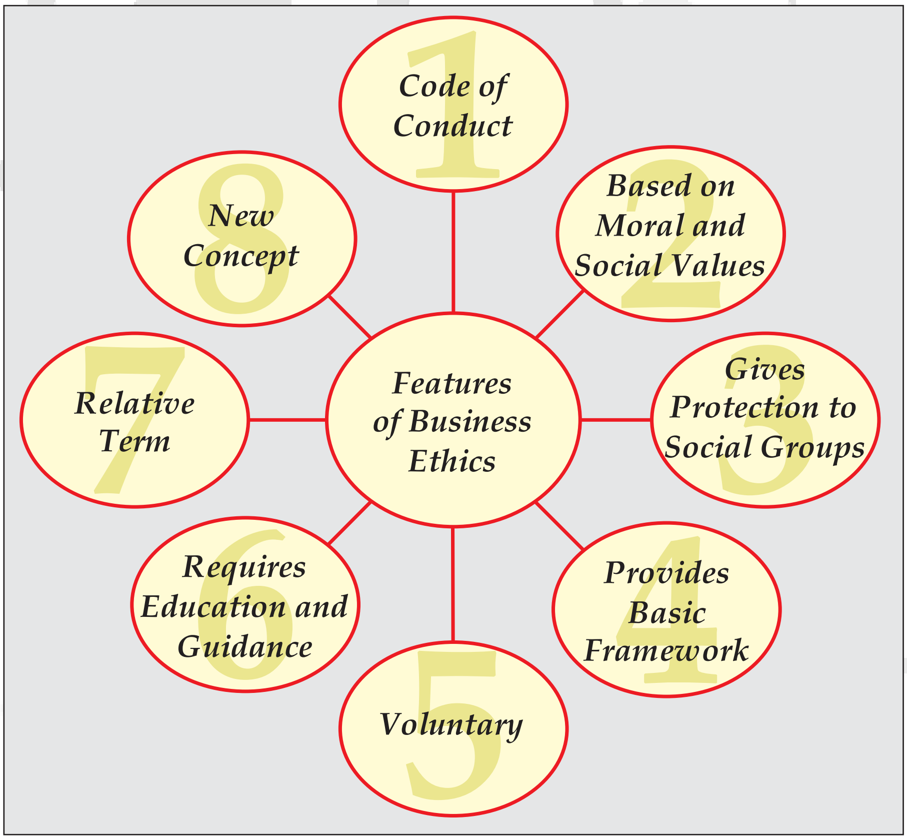
Further, ethics can be classified into three major study areas :

(i) ***Meta-ethics*** *is concerned with the theoretical meaning of morality and ethical principles, i.e. what we understand when we talk about what is right or wrong.*

(ii) ***Normative ethics*** *deals with the content of moral judgments i.e. determining the moral course of action and includes the criteria for what is right or wrong, good or bad, kind or evil, etc.*

(iii) ***Applied ethics*** *is concerned with the actions which a person is obliged to perform in a particular situation.*

Features of Business Ethics



1. Code of Conduct : Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society. All businessmen must follow this code of conduct.

2. Based on Moral and Social Values : Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes self-control, consumer protection and welfare, service to society, fair treatment to social groups, not to exploit others, etc.

3. Gives Protection to Social Groups : Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, shareholders, creditors, etc.

4. Provides Basic Framework : Business ethics provide a basic framework for doing business. It gives the social cultural, economic, legal and other limits of business. Business must be conducted within these limits.

5. Voluntary : Business ethics must be voluntary. The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.

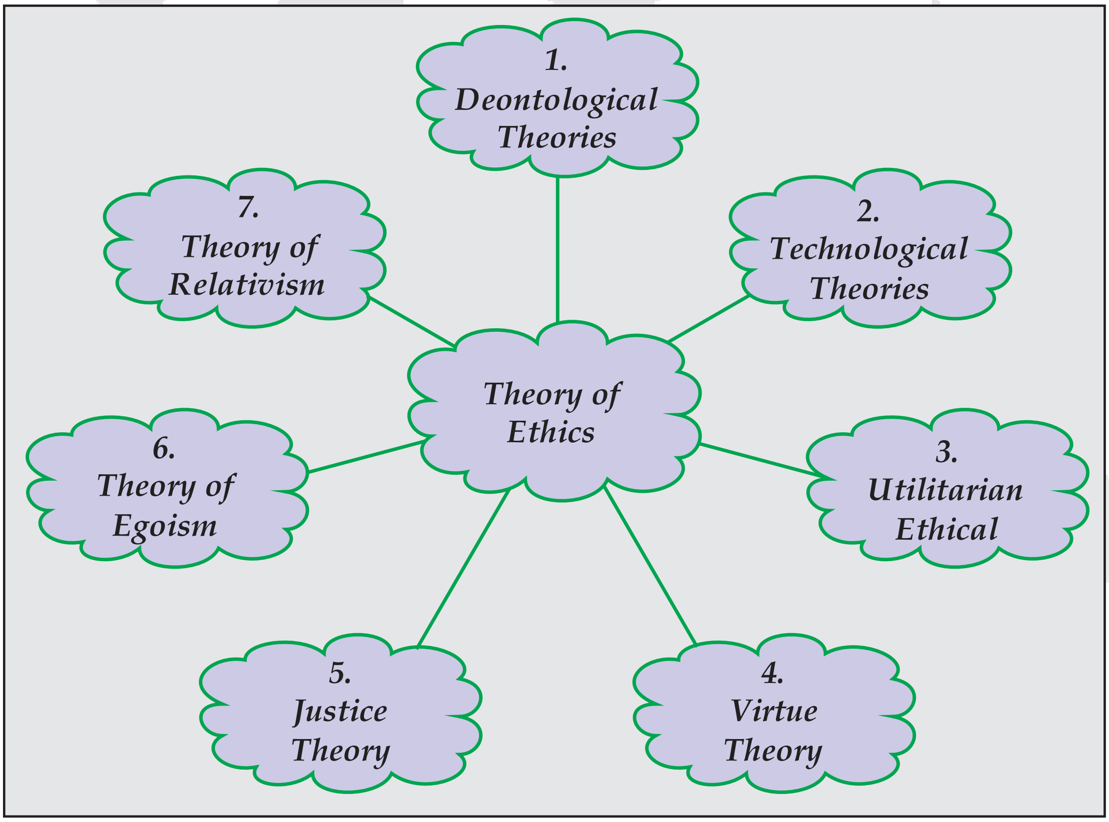
6. Requires Education and Guidance : Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.

7. Relative Term : Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.

8. New Concept : Business ethics is a newer concept. It is strictly followed only in developed countries. It is not followed properly in poor and developing countries.

Theories of Ethics

Ethical theories arise in different contexts, so they address different problems. They also represent some ethical principles. There are many ethical theories, but in general there are many major kinds of ethical theories:



(a) Deontological Theories

The deontological class of ethical theories states that people should adhere to their obligations and duties when engaged in decision making when ethics are in play. This means that a person will follow his or her obligations to another individual or society because upholding one's duty is what is considered ethically correct. For instance, a deontologist will always keep his promises to a friend and will follow the law. A person who adheres to deontological theory will produce very consistent decisions since they will be based on the individual's set duties.

The most important defender of deontological ethics is **Immanuel Kant** who forwards his moral theory in 1788. Kant's ethical theory includes duty without regard to human happiness.

Kant believed that inclinations, emotions and consequences should play no role in moral action. This means that motivation for action must be based on obligation. Morality should provide us with a framework of rational principles (rules) that guide and restrict action, independent of personal intentions and desires.

Kant distinguishes two kinds of imperatives; hypothetical and categorical imperatives. Hypothetical imperatives are conditional, whereas categorical imperatives are unconditional, and they must be obeyed under any conditions.

Hence, according to Kantian ethics is an action passes the test of categorical imperative, the action is ethical.

(b) Teleological Theories

Teleology is derived from the Greek word **'telos'** meaning ends or purposes. *This theory holds that ends or consequences of an act determine whether the act is good or bad.* Rightness of actions is determined solely by their good consequences. Teleological approach is also known as consequential ethics.

Businessmen commonly think in terms of purposeful actions as in, for example, management by objectives.

Teleological analysis of business ethics leads to the consideration of the full range of stakeholders in any business decision, including the management, the staff, the customers, the shareholders, the country, humanity and environment.

(c) Utilitarian Ethical

Utilitarianism is an ethics of welfare. Business guided by utilitarian approach focuses on behaviors and their results, not on the means of such actions. It can be described by the phrase, **"the greatest good for the greatest number."** The utilitarian approach prescribes ethical standards for managers in the areas of organizational goals, i.e., maximization of profits; and having efficiency which denotes optimum utilization of scarce resource.

Utilitarian ethical theories are based on one's ability to predict the consequences of an action. To a utilitarian, the choice that yields the greatest benefit to the most people is the one that is ethically correct.

There are two types of utilitarianism, **act utilitarianism and rule utilitarianism**.

Act utilitarianism subscribes precisely to the definition of utilitarianism-a person performs the acts that benefit the most people, regardless of personal feelings or the societal constraints such as laws. Rule utilitarianism takes into account the law and is concerned with fairness.

A rule utilitarian seeks to benefit the most people, but through the fairest and most just means available. Therefore, added benefits of rule utilitarianism are that it values justice and includes beneficence at the same time.

The utilitarian principle states, "an action is right from ethical point of view if and only if they seem total of utilities produced by that act are greater than the sum total of utilities produced by any other act that can be performed at that point of time by any person". This approach gives precedence to good over right.

(d) Virtue Theory

Virtue ethics *is normative ethical theories which emphasize virtues of mind and character. Virtue ethicists discuss the nature and definition of virtues and other related problems.* For example, how are virtues acquired? How are they applied in various real-life contexts? Are virtues rooted in a universal human nature or in a plurality of cultures?

Virtue ethics refers to a collection of normative ethical philosophies that place an emphasis on being rather than doing. Another way to say this is that in virtue ethics, morality stems from the identity and/or character of the individual, rather than being a reflection of the actions (or consequences thereof) of the individual.

Today, there is debate among various adherents of virtue ethics concerning what specific virtues are morally praiseworthy. However, most theorists agree that morality comes as a result of intrinsic virtues.

The virtue ethical theory judges a person by his/her character rather than by an action that may deviate from his/her normal behavior. It takes the person's morals, reputation, and motivation into account when rating an unusual and irregular behavior that is considered unethical. For instance, if a person plagiarized a passage that was later detected by a peer, the peer who knows the person well will understand the person's character and will judge the friend accordingly.

Virtue theory went out of favor with the advent of Kantianism and Utilitarianism. However, it re-emerged in 1958 with the publication of paper entitled **"Modern Moral Philosophy" by Elizabeth**.

> *"Role of ethics is to enable us to lead a successful and good life". This in Aristotle's view is possible only for virtuous people. In his words "virtue is a character trait that manifests itself in habitual action".*
> ***- Aristotle***

For example, honesty does not imply telling the truth once, but has to be the trait of a person who tells the truth as general practice.

Aristotle considers pride and shame to be virtues on the grounds that we should be proud of our accomplishments and ashamed of our failings. Virtues should contribute to the idea of a good life. They are not merely means to happiness but are constituents of it.

(e) Justice Theory

Justice approach is also known as fairness approach. Greek philosophers ***Plato*** *have contributed to the idea that all equals should be treated equally. Justice does not depend on consequences; it depends on the principle of equality.*

The contemporary **American Philosopher John Rawl's** objection to utilitarianism is that it does not give adequate attention to the way in which utility is distributed among different individuals. As an alternative to the utilitarian idea of society with highest welfare, Rawls proposes a society that recognizes its members as free and equal person who attempt to advance their own interests and come into conflict with others pursuing their self -interests.

The key to a well-ordered society is the creation of institutions that enable individuals with conflicting ends to interact in mutually beneficial ways. The focus here is on social justice. Rawls promotes "Play It Safe". He argues that a rational person should choose the alternative in which the worst possible outcome is still better than the worst possible outcome of any other alternative.

(f) Theory of Egoism

Egoism is derived from the Latin word **'ego'** meaning **'I'**. The theory of egoism holds that the good is based on the pursuit of self-interest.

This model takes into account harms, benefits and rights for a person's own welfare. Under this model an action is morally correct if it increases benefits for the individual in a way that does not intentionally hurt others, and if these benefits are believed to counterbalance any unintentional harms that ensue. For example, a company provides scholarships for education to needy students with a condition that the beneficiary is required to compulsorily work for the company for a period of 5 years.

Although, the company is providing scholarship benefits to the needy students, ultimately it is in the company's self-interest.

(g) Theory of Relativism

Relativism *is the idea that Views are relative to differences in perception and consideration. There is no universal, objective truth according to relativism; rather each point of view has its own truth.*

The major categories of relativism vary in their degree of scope and controversy. Moral Relativism encompasses the differences in moral judgments among people and cultures.

Truth relativism is the doctrine that there are no absolute truths, i.e., that truth is always relative to some particular frame of reference, such as a language or a culture (Cultural relativism) Descriptive relativism, as the name implies, seeks to describe the differences among cultures and people without evaluation, while normative relativism evaluates the morality or truthfulness of views within a given framework.

Structure of Ethics Management

Every-one who is entrusted to manage ethics in this organization is bound to prepare a sound ethical programme which should include the following components :

1. Code of Conduct

Several organizations that have undertaken to implement ethical behavior at their workplaces have started the process with developing and implementing codes of conduct for their employees. Codes of conduct are statements of organizational values. It comprises of three elements such as a **code of ethics, a code of conduct and statement of values**.

A code of conduct *is a written document, inspirational in contents and specifies clearly what is acceptable or unacceptable behavior at workplace and beyond, when the employees represent their organizations outside*. In general, the code should reflect the managements desire to incorporate the values and policies of the organization.

The code of conduct may include the following:

(a) Company Values.
(b) Avoidance of conflict of interests.
(c) Accurate and timely disclosure in reports and documents that the company files before Government agencies, as well as in the company's other communications.
(d) Compliance of applicable laws, rules and regulations including Insider Trading Regulations.
(e) Maintaining confidentiality of the company affairs.
(f) Standards of business conduct for the company's customers, communities, suppliers, shareholders, competitors, employees.
(g) Prohibition of Directors and senior management from taking corporate opportunities for themselves or their families.
(h) Review of the adequacy of the Code annually by the Board.
(i) No authority to waive off the Code should be given to anyone in any circumstances.

The statement of values envisages by the management to serve the public and normally addresses the stakeholder’s groups.

A code of ethics is a buzzword to employees to observe ethical norms and forms the basis for rules of conduct. It is comprehensive enough to cover the entire scheme of organizational ethics expected to be followed by everyone in the company. It usually specifies methods for reporting violations, disciplinary action for violations and a structure of the due process to be followed.

A code of ethics should reflect top managements' desire for compliance with the values, rules, and policies that support an ethical climate. The development of a code of ethics should involve the president, board of directors, and chief executive officers who will be implementing the code. Legal staff should also be called on to ensure that the code has assessed key areas of risk correctly and that it provides buffers for potential legal problems.

Corporate code of ethics often contains six core values or principles in addition to more detailed descriptions and examples of appropriate conduct. The six values that are desirable for codes of ethics include :

(1) Trustworthiness, (2) respect, (3) responsibility, (4) fairness, (5) caring, and (6) citizenship.

Thus, code of ethics outlines a set of fundamental principles which could be used both as the basis for operational requirements (things one must do), and operational prohibitions (things one must not do). It is based on a set of core principles and values and is not designed for convenience.

The employees subject to the code are required to understand, internalize, and apply it to situations which the code does not specifically address. Organizations expect that the principles, once communicated and illustrated, will be applied in every case, and that failure to do so may lead to disciplinary action.

2. Ethics Committee

Ethics committee is formed in many organizations. They are wholly devoted at work places. These committees can rise concerns of ethical nature; prepare or update code of conduct, and resolve ethical dilemma in organizations. They formulate ethical policies and develop ethical standards. The committee evaluates the compliance of the organization with these ethical norms.

The members of the ethical committee should be selected from those persons who have knowledge in their industry, their code of ethics and community standards. The committee members are also conscious about the corporate culture and ethical concise of the organization.

Function of Ethics Committee

(a) Review of The Definitions of Standards and Procedures : *The Committee should review the organization's areas of operation, the activities that require a formal set of ethical standards and procedures.*

Once the review is complete and any shortcomings come to light, the ethics committee should assign the creation of revised guidelines to the appropriate personnel, including the design of a formal method for communicating standards, and procedures to employees. This method should ensure that employees understand as well as accept the ethics program.

The ethics committee can suggest behaviors to upper management that reinforce the organization's guidelines.

(b) Facilitate Compliance : *The ethics Committee has the responsibility for overall compliance. It is the responsible authority for ethics compliance within its area of jurisdiction*. It should serve as the court of last resort concerning interpretations of the organization's standards and procedures. In case of inconsistencies, the committee should make recommendations on improving the existing compliance mechanisms and there should be regular follow-ups to ensure that compliance recommendations are understood and accepted.

(c) Due Diligence of Prospective Employees : *The ethics committee should define how the organization will balance the rights of individual applicants and employees against the organization's need to avoid risks that come from placing known violators in positions of discretionary responsibility*. This includes the oversight of background investigations on employees and applicants who are being considered for such positions.

(d) Oversight of Communication and Training of Ethics Programme : *The ethics committee should define methods and mechanisms for communicating ethical standards and procedures*. This includes the distribution of documents (codes of conduct, for example) to ensure that every employee understands and accepts the organization's ethical guidelines. To make certain that published standards are understood, the ethics committee should provide regular training sessions, as well.

Since communication is a two-way process, the ethics committee should solicit stakeholders input regarding how standards and procedures are defined and enforced. In this connection, it is useful to create ways of providing proof that each employee has received the appropriate documents and understands the standards and procedures described therein.

(e) Monitor and Audit Compliance : Compliance is an ongoing necessity and the ethics committee should design controls which monitor, audit and demonstrate employees' adherence to published standards and procedures. *There should also be some mechanisms to check the effectiveness and reliability of such internal controls.*

To warrant that the organization's goals, objectives and plans are not in conflict with its ethical standards and procedures, the ethics committee should develop methods for regular review and assessment.

(f) Enforcement of Disciplinary Mechanism : *Disciplinary provisions should be in place to ensure consistent responses to similar violations of standards and procedures (as against applying different standards to different employees based on their position, performance, function, and the like).* There should be provisions for those who ignore as well as for those who violate standards and procedures.

(g) Analysis and Follow-Up : When violations occur, the ethics committee should have ways to identify why they occurred. *It is also important that lessons learned from prior violations are systematically applied to reduce the chances of similar violations taking place in future.*

3. Ethical Communication

The next step is the establishment of an effective ethical communication system. Ethical communication system places an important role in making an ethics programme successful. It should allow employees to make enquiries, get advice if needed or report wrong doing. Ethical communication system is a necessity to educate employees about the organizations ethical standard and policies. It has the following objectives

- *To communicate the organizations 'values and standards of ethical conduct or business to employees.*
- *To provide information to the employees on the company's policies and procedure regarding ethical conduct of business.*
- *To help employees to get guidance and resolve questions regarding compliancewith the firm's standards of conducts and values.*
- *To set up the means of enquiry such as telephone hotlines, suggestion boxes and email facilities for employees to contact with and get advice from competent authorities*

Along with these means of communication there are other ways that can be used to communicate an organization's moral standards to its employees. Top management can communicate the ethical standards to lower level managers and they can communicate it to operational levels.

Sometimes the organization publishes newsletters. It can be used to expose company's code of ethics. If an organization has briefing and management meeting, these can be used as a means of communicating values. Certain companies use attractive multi colored posters to publicize their codes and ethics, these posters are placed in most visible places of the organization premises.

4. An Ethic office with Ethical officers

Ethics offices are to be established to communicate and implement ethics policies among employees of the organization. For this purpose an ethics officer is to be appointed. The ethics officer should develop a reputation for credibility, integrity, honesty and responsibility through establishment of such ethics monitoring bodies.

Functions of The Ethics Officers

- *Ethics officers are responsible for assessing the needs and risks that an organization-wide ethics programme must address.*
- *To develop and distribute a code of conduct or ethics*
- *To conduct ethical training programme for employees*
- *To establish and maintain a confidential service to answer employees questions about ethical issues.*
- *To ensure that the organization is in compliance with governmental regulations*
- *To monitor and audit ethical conduct*
- *To take action on possible violations of the company's code*
- *To review and update code in time*

5. Ethics Training Programme

A well developed and proper training programme will help the employees to understand the organizations policies and expectations, important and relevant rules, by laws and regulations which are to be complied in the organization by the employees. For the success of the training programmes, the senior executive from every department must involve fully in the training programme.

The main objective of an ethical training program is to offer assistance to employees to understand the ethical issues that are likely to arise in their work place. When new employees are to be recruited, the induction training should be arranged for them.

6. CREDO

The credo depicts company's ethical and socially responsible approach of conducting business. The credo epitomizes the company's responsibility to the people who use its products and services, to its employees, to the community and environment, and to its shareholders.

A good credo gives the company a reason to exist; it develops the spirit of employees motivating them at all times. It is a statement of common values that allows employees to understand the importance of the stakeholders and services provided. It is the force which makes them work together to achieve a consistent high standard.

For Example : Sam Walton, founder of Wal-Mart, established the "Three Basic Beliefs" as his company's credo. They are :

- Respect for the Individual
- Service to our Customers
- Strive for Excellence

7. Ethical Dilemma

A dilemma could be a right vs. wrong situation in which the right would be more difficult to pursue and wrong would be more convenient. A right versus wrong dilemma is not so easy to resolve. It often involves an apparent conflict between moral imperatives, in which to obey one would result in transgressing the other. This is also called an ethical paradox. An ethical dilemma involves a situation that makes a person question what is the 'right' or 'wrong' thing to do.

They make individuals think about their obligations, duties or responsibilities. These dilemmas can be highly complex and difficult to resolve. Easier dilemmas involve a 'right' versus 'wrong' answer; whereas, complex ethical dilemmas involve a decision between a right and another right choice. However, any dilemma needs to be resolved.

Steps to Resolving an Ethical Dilemma

- *Considering the options available*
- *Considering Consequences- positives and negatives of each option*
- *Analyzing Actions*
- *Decision making and commitment*
- *Evaluating system*

8. Ethical Audit

An ethical audit measures the cultures and behaviors of an organization and determines the extent to which its values are embedded across its people and across its processes.

An ethics audit may consider the company's own practices, how it redresses grievances, how it discloses its Finances, whether it punishes Whistleblowers, and even the general cultural surrounding its Business dealings. Some companies may formally adopt a code of ethics and conduct periodic ethics audits to see how.

Closely they follow their own rules.

The following are the some of the suggested steps in ethics audit :

- *The first step in conducting an audit is securing the commitment of the firm's top management.*
- *The second step is establishing a committee or team to oversee the audit process.*
- *The third step is establishing the scope of the audit.*
- *The fourth step should include a review of the firm's mission values, goals, and policies.*
- *The fifth step is identifying the tools or methods that can be employed to measure the firm's progress and then collecting and analyzing the relevant information.*
- *The sixth step is having the results of the data analysis verified by an independent party.*
- *The final step in the audit process is reporting the audit findings to the board of directors and top executives and, if approved, to external stakeholders.*

9. Whistleblower

Whistleblower is a person, who could be an employee of a company, or a government agency, disclosing information to the public or some higher authority about any wrongdoing, which could be in the form of fraud, corruption, etc.

This misconduct may be classified in many ways: for example, a violation of a law, rule, regulation and/or a direct threat to the public interest, such as fraud, health/ safety violations, and corruption.

Whistleblowers frequently the face retaliation - sometimes at the hands of the organization or the group which they have accused, unless a system is in place that would ensure confidentiality.

Whistle Blower Policy should be made mandatory, to begin with, for listed companies. A model policy in this regard may be specified covering important clauses that protect employees' interests.

- The company shall establish a vigil mechanism for directors and employees to report concerns about unethical behavior, actual or suspected fraud or violation of the company's code of conduct or ethics policy.
- This mechanism should also provide for adequate safeguards against victimization of director(s)/employee(s) who avail of the mechanism and also provide for direct access to the Chairman of the Audit Committee in exceptional cases.
- The details of establishment of such mechanism shall be disclosed by the company on its website and in the Board's report

10. Integrity Pact

The Integrity Pact (IP) is a powerful tool developed by Transparency International (TI) to help governments, businesses and civil society fight corruption in public contracting.

It contains rights and obligations to the effect that neither side will pay, offer, and demand or accept bribes; collude with competitors to obtain the contract; or engage in such abuses while carrying out the contract. The IP also introduces a monitoring system that provides for independent oversight and accountability.

Integrity Pact useful for

Companies can abstain from bribing safe in the knowledge that

- their competitors have provided assurances to do the same, and
- government procurement, privatization or licensing agencies will follow transparent procedures and undertake to prevent corruption, including extortion, by their officials

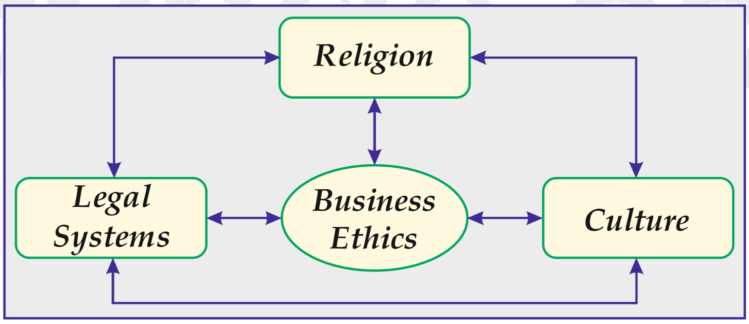
Governments can reduce the high cost and distorting impact of corruption on public procurement, privatization or licensing in their programs, which will have a more hospitable investment climate and public support.

Citizens can more easily monitor public decision-making and their government's activities.

Sources of Business Ethics

Ethics in general refers to a system of good and bad, moral and immoral, fair and unfair. It is a code of conduct that is supposed to align behaviors within an organization and the social framework.

Primarily ethics in business is affected by three sources - culture, religion and laws of the state. It is for this reason we do not have uniform or completely similar standards across the globe. These three factors exert influences to varying degrees on humans which ultimately get reflected in the ethics of the organization.



(a) Religion : *It is one of the oldest foundations of ethical standards. Religion wields varying influences across various sects of people. It is believed that ethics is a manifestation of the divine and so it draws a line between the good and the bad in the society.* Depending upon the degree of religious influence we have different sects of people; we have sects, those who are referred to as orthodox or fundamentalists and those who are called as moderates. Needless to mention, religion exerts itself to a greater degree among the orthodox and to lesser extent in case of moderates. Fundamentally however all the religions operate on the principle of reciprocity towards one's fellow beings!

(b) Culture : *Culture is a pattern of behaviors and values that are transferred from one generation to another, those that are considered as ideal or within the acceptable limits.* No wonder therefore that it is the culture that predominantly determines what is wrong and what is right. It is the culture that defines certain behavior as acceptable and others as unacceptable.

Human civilization in fact has passed through various cultures, wherein the moral code was redrafted depending upon the epoch that was. What was immoral or unacceptable in certain culture became acceptable later on and vice versa.

(c) Law : *Laws are procedures and code of conduct that are laid down by the legal system of the state. They are meant to guide human behavior within the social fabric.* The major problem with the law is that all the ethical expectations cannot be covered by the law and specially with ever changing outer environment the law keeps on changing but often fails to keep pace. In business, complying with the rule of law is taken as ethical behavior, but organizations often break laws by evading taxes, compromising on quality, service norms etc.

Principle of Business Ethics

The Principles of business ethics developed by well-known authorities like **Cantt, J. S.Mill, Herbert Spencer, Plato, Thomas Garret, Woodard, Wilson** etc. are as follows:

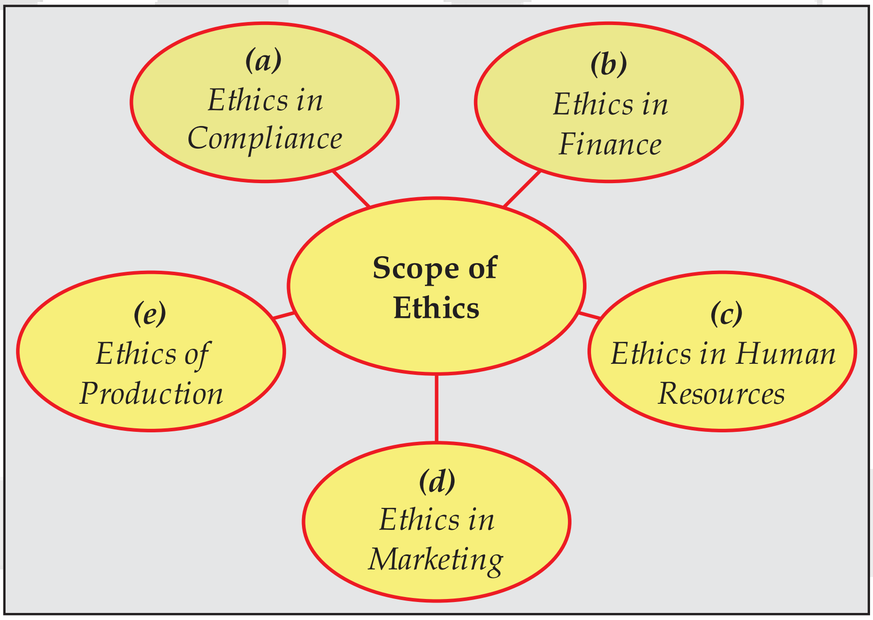
Principles of Business Ethics

1. *Sacredness of Means and Ends*
2. *Not to do Any Evil*
3. *Principle of Proportionality*
4. *Non Co-Operation in Evils*
5. *Co-Operation with Others*
6. *Publicity*
7. *Equivalent Price*
8. *Universal Value*
9. *Human Dignity*
10. *Non-Violence*

1. **Sacredness of Means and Ends :** The first and most important principles of business ethics emphasize that the means and techniques adopted to serve the business ends must be sacred and pure. It means that a good end cannot be attained with wrong means, even if it is beneficial to the society.

2. **Not to do Any Evil :** It is unethical to do a major evil to another or to oneself, whether this evil is a means or an end.
3. **Principle of Proportionality :** This principle suggests that one should make proper judgment before doing anything so that others do not suffer from any loss or risk of evils by the conducts of business.
4. **Non Co-Operation in Evils :** It clearly points out that a business should with any one for doing any evil acts.
5. **Co-Operation with Others :** This principles states that business should help others only in that condition when other deserves for help
6. **Publicity :** According to W. Wilson, anything that is being done or to be done, should be brought to the knowledge of everyone. If everyone knows, none gets opportunity to do an unethical act.
7. **Equivalent Price :** According to W. Wilson , the people are entitled to get goods equivalent to the value of money that he will pay.
8. **Universal Value :** According to this principle the conduct of business should be done on the basis of universal values.
9. **Human Dignity :** As per this principle, man should not be treated as a factor of production and human dignity should be maintained.
10. **Non-Violence :** If businessman hurts the interests and rights of the society and exploits the consumer by overlooking their interests this is equivalent to violence and unethical act.

Scope of Ethics



(a) Ethics in Compliance : *Compliance is about obeying and adhering to rules and authority. The motivation for being compliant could be to do the right thing out of the fear of being caught rather than a desire to be abiding by the law.* An ethical climate in an organization ensures that compliance with law is fuelled by a desire to abide by the laws. Organizations that value high ethics comply with the laws not only in letter, but go beyond what is stipulated or expected of them.

(b) Ethics in Finance : The ethical issues in finance that companies and employees are confronted with include :

- In accounting - window dressing, misleading financial analysis.
- Related party transactions not at arm's length.
- Insider trading, securities fraud leading to manipulation of the financial markets.
- Executive compensation.
- Bribery, kickbacks, over billing of expenses, facilitation payments.
- Fake reimbursements.

(c) Ethics in Human Resources : *Human resource management (HRM) plays a decisive role in introducing and implementing ethics. Ethics should be a pivotal issue for HR specialists*. The ethics of human resource management (HRM) covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee.

The issues of ethics faced by HRM include :

- Discrimination issues i.e. discrimination on the bases of age, gender, race, religion, disabilities, weight etc.
- Sexual harassment.
- Affirmative Action.
- Issues surrounding the representation of employees and the democratization of the workplace, Trade.
- Issues affecting the privacy of the employee: workplace surveillance, drug testing.
- Issues affecting the privacy of the employer: whistle-blowing.
- Issues relating to the fairness of the employment contract and the balance of power between employer and employee.
- Occupational safety and health.

Companies tend to shift economic risks onto the shoulders of their employees. The boom of performance-related pay systems and flexible employment contracts are indicators of these newly established forms of shifting risk.

(d) Ethics in Marketing : *Marketing ethics is the area of applied ethics which deals with the moral principles behind the operation and regulation of marketing*. The ethical issues confronted in this area include:

- Pricing: price fixing, price discrimination, price skimming.
- Anti-competitive practices like manipulation of supply, exclusive dealing arrangements, tying arrangements etc.
- Misleading advertisements.
- Content of advertisements.
- Children and marketing.
- Black markets, grey markets.

(e) Ethics of Production : *This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arise out of the fact that there is usually a degree of danger in any product or production process and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventative technologies or changing social perceptions of acceptable risk.*

- Defective, addictive and inherently dangerous products and
- Ethical relations between the company and the environment include pollution, environmental ethics, and carbon emissions trading.
- Ethical problems arising out of new technologies for eg. Genetically modified food.
- Product testing ethics.

Advantage of Ethics

(a) Attracting and Retaining Talent : *People aspire to join organizations that have high ethical values. Such companies are able to attract the best talent. The ethical climate matters a lot to the employees. Ethical organizations create an environment that is trustworthy, making employees willing to rely on company's policies, ability to take decisions and act on those decisions.* In such a work environment, employees can expect to be treated with respect, and will have consideration for their colleagues and superiors as well. Thus, company's' policies cultivate teamwork, promote productivity and support employee-growth.

Retaining talented people is as big a challenge for the company as getting them in the first place. Work is a mean to an end for the employees and not an end in itself. The relationship with their employer must be a win situation in which their loyalty should not be taken for granted. Talented people will invest their energy and talent only in organizations with values and beliefs that matches their own. In order to achieve this equation, managers need to build culture, compensation and benefit packages, and career paths that reflect and foster certain shared values and beliefs.

(b) Investor Loyalty : *Investors are concerned about ethics, social responsibility and reputation of the company in which they invest.*

Investors are becoming more and more aware that an ethical climate provides a foundation for efficiency, productivity and profits. Relationship with any stakeholder, including investors, based on dependability, trust and commitment results in sustained loyalty.

(c) Customer Satisfaction : *Customer satisfaction is a vital factor of a successful business strategy. Repeated purchases/orders and an enduring relationship with mutual respect is essential for the success of the company.* The name of a company should evoke trust and respect among customers for enduring success.

(d) Regulators : *Regulators eye companies functioning ethically as responsible citizens. The regulator need not always monitor the functioning of the ethically sound company.*

Any organization that acts within the confines of business ethics not only earns profit but also gains reputation publicly.

- To summarize, companies that are responsive to employees' needs have lower turnover in staff.
- Shareholders invest their money into a company and expect a certain level of return from that money in the form of dividends and/or capital growth.
- Customers pay for goods, give their loyalty and enhance a company's reputation in return for goods or services that meet their needs.
- Employees provide their time, skills and energy in return for salary, bonus, career progression and experience.

Ques. *Which of the following are sources of ethics ?* ***(NTA UGC-NET June 2013 P-III)***

(i) Religion *(ii) Legal system*

(iii) Economic system *(iv) Culture*

(v) Family system

Select the correct answer from the codes given below :

(A) (i), (ii), (iii), (v) *(B) (i), (ii), (iv)*

(C) (i), (iv), (v) *(D) (i), (ii), (iii), (iv), (v)*

Ans. *(C) (i), (iv), (v)*

Ques. *Find out the correct combination of statements with regards to business ethics :*

(NTA UGC-NET June 2015 P-III)

(a) Business ethics is the behaviour that a business adheres to in its daily dealings.

(b) The ethics of a particular business can be diverse.

(c) Business ethics has normative and descriptive dimensions.

(A) Only (a) and (b) *(B) Only (a) and (c)*

(C) Only (b) and (c) *(D) All (a), (b) and (c)*

Ans. *(D) All (a), (b) and (c)*

Ques. *Which one of the following is not correct about business ethics ?*

(A) Business ethics reflects the philosophy of business. ***(NTA UGC-NET June 2015 P-III)***

(B) Business ethics is a form of applied ethics.

(C) Business ethics are governed by the Government Policies.

(D) Ethics are the standards which govern decisions on daily basis.

Ans. *(C) Business ethics are governed by the Government Policies.*

Key Points & Revision Summary

- ***Management*** *: "To manage is to forecast and to plan, to organize to command, to coordinate and to command"*
- ***Features of Management***
  1. *Management is Group Activities*
  2. *Management is Social Process*
  3. *Management is Purposeful Activities*
  4. *Management involves Decision Making*
  5. *Management is Art*
  6. *Management is Science*
  7. *Management is Universal Process*
  8. *Management is an Interdisciplinary Approach*
  9. *Management is Creative*
  10. *Management is Integrating Process*
- ***Importance of Management***
  1. *Optimum Utilization of Resources*
  2. *Expansion and Diversification*
  3. *Reduction of Employers Absenteeism and Turnover*
  4. *Utilizes the Benefits of Scienceand Technology*
  5. *Encourages Initiative and Innovation*
  6. *Minimizes Wastages*
  7. *Team Work*
  8. *Motivation*
  9. *Reduction in labour Turnover*
  10. *Higher Efficiency*
  11. *Improves The Quality of Lifeof The Workers*
  12. *Cordial Industrial Relations*
  13. *Corporate Image*
  14. *Promotes National Development*
  15. *It Helps Society*
- ***Henri Fayol (1841-1925)*** *is called Father of modern scientific Management.*
- *Frederick Taylor is popularly known as the "Father of Scientific Management"*
- ***Function of Management***
  1. *Planning*
  2. *Organizing*
  3. *Staffing*
  4. *Directing*
  5. *Controlling*
- ***Organisational Structure*** *: "Organization structure is the pattern of relationship among the component parts of the organization"*

Key Points & Revision Summary

- ***Process of Organization***
  1. *Establishing Objectives*
  2. *Identification of Tasks*
  3. *Grouping Jobs*
  4. *Collecting Human and Material Resources*
  5. *Assigning Work*
  6. *Designing a Hierarchy of Relationship*
  7. *Delegation of Authority*
  8. *Coordination*
  9. *Monitoring the Effectiveness*
- ***Types of Organizational Structure***
  - ***(A) Formal Organization***
    1. *Line Organization*
    2. *Line and Staff Organization*
    3. *Functional Organization*
    4. *Project Management Organization*
    5. *Matrix Organization*
  - ***(B) Informal Organizational Structure***
    1. *Horizontal Groups*
    2. *Vertical Groups*
    3. *Mixed Groups*
- ***Organizational Theories***
  1. ***Classical Organization Theory***
     - *(a) Weber's Bureaucratic Approach*
     - *(b) Scientific Management Approach*
     - *(c) Administrative Approach*
  2. ***Neo Classical Approach***
     - *(a) Hawthorne Experiments*
     - *(b) Human Relation Movement*
     - *(c) Organizational Behavior*
  3. ***Modern Organization Theory***
     - *(a) System Approach*
     - *(b) Socio-Technical Approach*
     - *(c) Contingency-Situational Approach*
- ***Organizational Culture*** *: "Organizational culture can be defined as a pattern of basic assumptions-invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration-that has worked well enough to be considered valuable and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems."*

Key Points & Revision Summary

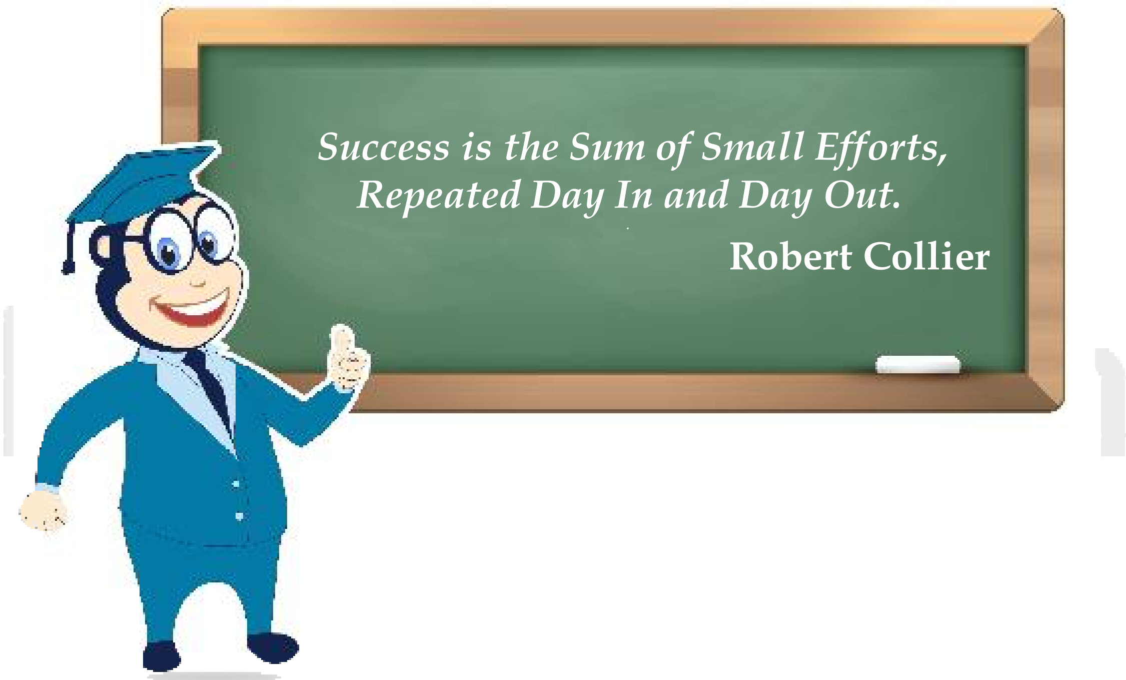
- ***Approaches of Organizational Culture***
  1. *Edgar Schein*
  2. *Geert Hofstede*
  3. *Charles Handy*
  4. *Gerry Johnson and Kevan*
- ***Motivation :*** *Motivation can be defined as the process of activating, maintaining and directing behaviour towards a particular goal.*
- ***Theories of Motivation :***
  1. *Cognitive Theories*
  2. *Maslow's Need Hierarchy Theory*
  3. *Alderfer's ERG Theory*
  4. *Herzberg's Two-Factor Theory*
  5. *Hygiene Factors*
  6. *Equity Theory of Motivation*
  7. *Goal Theory*
  8. *Theory X and Theory Y*
  9. *Vroom's Expectancy Theory*
  10. *Reinforcement Theory*
  11. *Adam's Equity Theory*
- ***Leadership :*** *Leadership is the process of directing others towards the accomplishment of goals.*
- ***Types of Leadership***
  1. *Grassroots Leadership*
  2. *Team Leadership*
  3. *Ethical Leadership*
  4. *Principle-Centered Leadership*
  5. *Self- Leadership*
  6. *Supervisory Leadership*
  7. *Strategic Leadership*
- ***Leadership Styles***
  1. *Autocratic Leadership*
  2. *Democratic Leadership*
  3. *Strategic Leadership Style*
  4. *Transformational Leadership*
  5. *Team Leadership*
  6. *Cross-Cultural Leadership*
  7. *Facilitative Leadership*
  8. *Laissez-Faire Leadership*
  9. *Transactional Leadership*
  10. *Coaching Leadership*
  11. *Charismatic Leadership*
  12. *Visionary Leadership*

Key Points & Revision Summary

- ***Leadership Theories***
  (a) *Qualities or Traits Approaches*
  (b) *The Behavioral Approach*
  (c) *McGregor's Theory X and Theory Y Managers*
  (d) *Lowa Leadership Studies*
  (e) *Ohio State Leadership Studies*
  (f) *Michigan Studies on Leadership Style*
  (g) *Leadership Grid*
  (h) *Transactional Leadership Style*
  (i) *Contingencies Theories*
  (j) *Transformational Theories*
  (k) *Situational Theories*
  (l) *Participative Theory*
- ***Corporate Governance :*** *"Corporate governance means that company managers its business in a manner that is accountable and responsible to the shareholders. In a wider interpretation, corporate governance includes company's accountability to shareholders and other stakeholders such as employees, suppliers, customers and local community."*
- ***The Benefits of Corporate Governance***
  (A) *The Benefits to Companies*
  (B) *The Benefits to Shareholders*
  (C) *The Benefits to the National Economy*
- ***Business Ethics*** *: "Business Ethics is the study of the business situations 'activities' and decisions where issues of right and wrong are addressed."*
- ***Features of Business Ethics***
  1. *Code of Conduct*
  2. *Based on Moral and Social Values*
  3. *Gives Protection to Social Groups*
  4. *Provides Basic Framework*
  5. *Voluntary*
  6. *Requires Education and Guidance*
  7. *Relative Term*
  8. *New Concept*

Key Points & Revision Summary

- ***Theories of Ethics***
  - *(a) Deontological Theories*
  - *(b) Teleological Theories*
  - *(c) Utilitarian Ethical*
  - *(d) Virtue Theory*
  - *(e) Justice Theory*
  - *(f) Theory of Egoism*
  - *(g) Theory of Relativism*
- ***Ethical Dilemma** : A dilemma could be a right vs. wrong situation in which the right would be more difficult to pursue and wrong would be more convenient.*



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